



**A Report to the
Audit Committee**

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**Audit of Nashville Education,
Community and Art Television
Corporation**

October 29, 2013

**Metropolitan
Nashville
Office of
Internal Audit**

EXECUTIVE SUMMARY

October 29, 2013



Why We Did This Audit

The audit was initiated based on the number of years lapsed since the last audit.

What We Recommend

Formal procedure to account for assets between Nashville Education, Community and Arts Television Corporation and Metropolitan Nashville should be improved.

Review studio scheduling procedures for possible changes that could minimize the total Metropolitan Nashville Information Services Department staff time required to provide equipment operations coverage.

For more information on this or any of our reports, email Mark.Swann@nashville.gov

Audit of Nashville Education, Community, Arts Television

BACKGROUND

The Nashville Education, Community and Arts Television Corporation is a not-for-profit organization established to enrich Nashville by being a communications broadcast center (Comcast Music City Arts 9, iQTV10, and Access Nashville 19) that encourages, nurtures and features the many diverse voices of the community; protects freedom of speech and expression, and engages all Davidson County residents fairly through the production and transmission of non-commercial programming.

OBJECTIVES AND SCOPE

The objectives of this audit were to:

- Determine the operation was fulfilling the intent and objective of its enabling legislation.
- Determine if controls and procedures were in place to properly manage fiscal resources.

The audit scope was between July 1, 2010, and June 30, 2013.

	2012	2013
Funding Sources:		
Franchise agreement pass through Metropolitan Nashville	98,914	99,688
Self-generated Funds	79,185	67,932
Metropolitan Nashville Donated Services (Labor and Rent)	160,005	180,032
Total Sources of Funding	\$338,104	\$347,652
Total Operating Expense	\$318,332	\$324,782

Source: Metropolitan Nashville and Nashville Education, Community and Arts Television Corporation's accounting system and financial report. Fiscal year 2012 estimated rent was used for fiscal year 2013. Both funding and expense include donated services and expenses.

WHAT WE FOUND

Programming was consistent with the focus area for each channel. Citizens were creating original productions and training classes were provided.

Metropolitan Nashville donated labor could be reduced by additional studio scheduling requirements. Ownership of equipment was not always clear between Nashville Education, Community and Arts Television Corporation and Metropolitan Nashville.

GOVERNANCE

An eleven-member board oversees the operations of the Nashville Education Community and Arts Television Corporation. The board members were appointed by the Metropolitan Nashville Mayor and approved by the Metropolitan Nashville Council. The board has the responsibility for defining the mission respectively for education, community, and arts television channels. The board also develops programming guidelines compliant with applicable laws, including Federal Communications Commission regulations. Two employees, a chief executive officer and an assistant director, carry out the board's missions.

The Metropolitan Nashville Information Technology Services Department is responsible for maintaining equipment, scheduling broadcasting programs, and facilitating productions at the studio. Two full-time and two part-time employees administratively report to Metropolitan Nashville Information Technology Services Department and functionally report to the Nashville Education Community and Arts Television Corporation Chief Executive Officer.

OBJECTIVES AND CONCLUSIONS

1. Was the operation fulfilling the intent and objective of its enabling legislation?

Yes. Board meeting minutes, policies and procedures established by the organization, and programs aired both on the three Comcast reserved channels and on YouTube were reviewed. Business activities carried out by the organization were aligned with Metropolitan Nashville Code of Laws § 6.08.080 - Cable Communications Franchise and Regulations.

2. Were assets tracked, maintained, and safeguarded?

Generally yes. The Public Education Government Studio building is secured and monitored by surveillance cameras. A Metropolitan Nashville Information Technology Services Department technician keeps a list of equipment currently located at the studio. A physical inventory found several items had Metropolitan Nashville assets tag while marked as Nashville Education Community and Arts Television Corporation property on the list. (See Observation B for details.)

3. Were expenditures aligned with Nashville Education Community and Arts Television Corporation service delivery objectives?

Generally Yes. Nashville Education Community and Arts Television Corporation accounting records, bank statements, invoices, and receipts were reviewed to verify that transactions were aligned with the corporation's business purposes and recorded accurately. The review raised concerns for the control over expenditure. (See Observation C for details.)

Improvements in scheduling Metropolitan Nashville staff at the studio could potentially free up staff time for other activities. (See Observation A for details.)

4. Were revenues for services, Comcast concession, and community contributions deposited in the bank and recorded in the Nashville Education Community and Arts Television Corporation accounting records?

Generally Yes. Payments made to the organization were reviewed and income from all sources, such as Square Inc. and PayPal, were traced to bank statement deposits. The review raised concerns for the control over revenue receipting process at the NECAT. (See Observation C for detail.)

AUDIT OBSERVATIONS

Observation A: Improvements in scheduling Metropolitan Nashville staff time at the studio could free up time for other activities.

Producers can reserve five hour blocks of time to use the studio up to ten hours per day Monday through Saturday. Two full- time and two part-time Metropolitan Nashville Information Technology Service Department employees (approximately three full-time equivalents at \$162,940 for fiscal year 2013) were assigned to cover the studio's opening hours.

Between December 2011 and June 2013, out of 950 available blocks of studio time, there were approximately 705 blocks (74 percent) reserved by producers or used for classes. Establishing a minimum 24 to 48 hour advance reservation time requirement could improve scheduling of Metropolitan Nashville Information Technology Department staff time, allowing for repurposing some of this time for other activities.

Recommendation for management of Nashville Education Community and Arts Television Corporation to:

1. Review existing studio scheduling procedures and determine if studio service objectives could still be achieved with less Metropolitan Nashville Information Technology Services Department dedicated staff time.

Recommendation for Metropolitan Nashville Information Technology Services Department to:

1. Work with the management of Nashville Education Community and Arts Television Corporation to review existing studio scheduling procedures and determine if studio service objectives could still be achieved with less Metropolitan Nashville Information Technology Services Department dedicated staff time.

Observation B: Ownership of assets should be clearly identified

Ownership of some studio equipment has never been clearly delineated between Nashville Education Community and Arts Television Corporation and Metropolitan Nashville Information Technology Services Department. No evidence was available to support any decisions made in the past on the ownership of this equipment. A physical inventory during the audit found that several items had Metropolitan Nashville asset tags while listed as Nashville Education Community and Arts Television Corporation property. These items included three studio cameras and their attached accessories.

Without clear identification of ownership of assets, undue burden might be imposed on technical support provided by Metropolitan Nashville Information Technology Services Department staff. Such burden might include, not limited to, excessive labor cost for operating equipment not belonging to Metropolitan Nashville, cost of repair or replacement of equipment, and so forth.

Recommendation for management of Nashville Education Community and Arts Television Corporation to:

1. Clarify the ownership of existing equipment, with Metropolitan Nashville Information Technology Service Department, and establish a formal procedure to identify and inventory assets.

Recommendation for Metropolitan Nashville Information Technology Services Department to:

2. Clarify the ownership of existing equipment, with Nashville Education Community and Arts Television Corporation, and establish a formal procedure to identify and inventory assets at the Studio.

Observation C: Financial transactions not consistently processed

During audit testing, inconsistencies in processing NECAT financial transactions were observed as follows:

- Out of 60 random expenditure transactions tested, documentation was not available to support payment for nine transactions, totaling \$848.
- Out of 60 random revenue accounting transactions tested, four transactions, totalling \$335.50 could not be traced to bank statements or other approved correcting journal entries.
- Funds drafted from the bank account to the payroll tax impound account for first quarter 2012 was \$381.13 greater than what was filed with Internal Revenue Service for the corresponding period. A reconciliation of the difference was not attempted due to documentation being unavailable or incomplete.

Recommendation for management of Nashville Education Community and Arts Television Corporation to:

1. Ensure that supporting documentation is available to support payment for all expenditures for post-audits.
2. Ensure that all fees or contributions are recorded in the financial system of record and deposited in a bank account.
3. Reconcile the first quarter 2012 payroll tax impound account with required payments and reporting to the Internal Revenue Service.

GOVERNMENT AUDITING STANDARDS COMPLIANCE

This performance audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

METHODOLOGY

To accomplish our audit objectives, we performed the following steps:

- Interviewed key personnel of the organization.
- Reviewed and analyzed board meeting records, policies and procedures, financial and statistical reports.
- Reviewed programs aired on Comcast, YouTube and other online venues
- Considered risk of fraud, waste, and abuse.
- Considered information technology risks.

AUDIT TEAM

Mark Swann, CPA, CIA, CISA, Metropolitan Auditor

Qian Yuan, CISA, Auditor-in-Charge



Nashville Education, Community, and Arts Television

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October 10, 2013

Mr. Mark Swann, Metropolitan Auditor
Office of Internal Audit
222 3rd Avenue North, Suite 401
Nashville, TN 37201

RE: Audit of NECAT

Dear Mr. Swann:

This letter acknowledges that Nashville Education, Community, and Arts Television has received the audit report and has reviewed the audit comments and recommendations. We have collaborated with Metro ITS in determining our respective planned actions and timeline in response to your recommendations. We will continue to work together to implement them in the timelines specified.

Sincerely,

Trish Crist
CEO

Enclosure

APPENDIX A – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN



Metropolitan Government of Nashville and Davidson County
Karl Dean, Mayor

Information Technology Services Department

October 28, 2013

Mr. Mark Swann, Metropolitan Auditor
Office of Internal Audit
222 3rd Avenue North, Suite 401
Nashville, TN 37201

RE: Audit of NECAT

Dear Mr. Swann:

This letter acknowledges that the Information Technology Services Department has received the audit report and has reviewed the audit comments and recommendations. We have collaborated with Nashville Education, Community, and Arts Television in determining our respective planned actions and timeline in response to your recommendations. We will continue to work together to implement them in the timelines specified.

Sincerely,

A handwritten signature in black ink, appearing to read "Keith Durbin".

Keith Durbin
Chief Information Officer/Director of IT Services Department

Enclosure

APPENDIX A – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

We believe that operational management is in a unique position to best understand their operations and may be able to identify more innovative and effective approaches and we encourage them to do so when providing their response to our recommendations.

Recommendation	Concurrence and Corrective Action Plan	Proposed Completion Date
<i>Recommendation for management of Nashville Education Community and Arts Television Corporation to:</i>		
<p>A.1 Review existing studio scheduling procedures and determine if studio service objectives could still be achieved with less Metropolitan Nashville Information Technology Services Department dedicated staff time.</p>	<p>Partially Agree: While we don't agree with an appointment based schedule system, we have created a new studio schedule and reshuffled our staff hours to more efficiently serve the Nashville public demand. We have eliminated the least booked studio blocks and replaced them with blocks we feel will be more often utilized. This audit's assessment had the studio's efficiency at 74%. Our goal, with these schedule changes in place, is 80%. This new schedule not only reflects Metro ITS employee's responsibility to operate/maintain the PEG Studio but it also provides for adequate staff hours to accomplish the equally important task of maintaining the broadcast of the three NECAT television channels. With the upcoming implementation of AT&T's U-Verse and the recent installation of TDS Telecom and United Telephone, it makes it even more important that we acknowledge this responsibility of the PEG Studio staff and provide them appropriate amount of time to accomplish it. We plan on rolling out with this new schedule on Oct. 27th on a trial basis. We will allow producers to book with this schedule in mind until February 2nd 2014. On January 6th 2014, the Studio Manager and NECAT CEO will reassess the success of this new schedule to determine whether it should be adopted on a permanent basis.</p>	<p>February 2, 2014</p>

APPENDIX A – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

Recommendation	Concurrence and Corrective Action Plan	Proposed Completion Date
<p>B.1 Clarify the ownership of existing equipment, with Metropolitan Nashville Information Technology Service Department, and establish a formal procedure to identify and inventory assets.</p>	<p>Agree: We plan on rectifying this issue by clearly identifying the ownership of every piece of equipment in the studio. The following database fields will be kept: “Manufacturer”, “Serial Number”, “Description”, “Manufactured Date”, “Image of Equipment”, “Building Located”, “Room Located”, “Estimated Cost of Equipment”, “Whether Equipment is Loaned Out to Public”, “Additional Notes”. As new equipment comes in, it will be ingested into the system.</p>	<p>January 1, 2014</p>
<p>C.1 Ensure that supporting documentation is available to support payment for all expenditures for post-audits.</p> <p>C.2 Ensure that all fees or contributions are recorded in the financial system of record and deposited in a bank account.</p> <p>C.3 Reconcile the first quarter 2012 payroll tax impound account with required payments and reporting to the Internal Revenue Service.</p>	<p>C.1 Accept Risk for this audit. Agree from July 1, 2013 onward. New CEO Trish Crist will ensure supporting documentation is available for all expenditures from July 1, 2013, onward.</p> <p>C.2 Accept Risk for this audit. Agree from July 1, 2013 onward. New CEO Trish Crist will ensure that all fees and contributions from July 1, 2013, onward are recorded in the financial system of record and deposited in NECAT’s bank account.</p> <p>C.3 Agree. New CEO Trish Crist will enlist assistance of board Treasurer to reconcile first quarter 2012 payroll tax impound account with required payments and reporting to the IRS</p>	<p>December 31, 2013</p>

APPENDIX A – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

<i>Recommendation for Metropolitan Nashville Information Technology Services Department to:</i>		
<p>A.2 Work with the management of Nashville Education Community and Arts Television Corporation to review existing studio scheduling procedures and determine if studio service objectives could still be achieved with less Metropolitan Nashville Information Technology Services Department dedicated staff time.</p>	<p>Partially Agree: While we don't agree with an appointment based schedule system, we have created a new studio schedule and reshuffled our staff hours to more efficiently serve the Nashville public demand. We have eliminated the least booked studio blocks and replaced them with blocks we feel will be more often utilized. This audit's assessment had the studio's efficiency at 74%. Our goal, with these schedule changes in place, is 80%. This new schedule not only reflects Metro ITS employee's responsibility to operate/maintain the PEG Studio but it also provides for adequate staff hours to accomplish the equally important task of maintaining the broadcast of the three NECAT television channels. With the upcoming implementation of AT&T's U-Verse and the recent installation of TDS Telecom and United Telephone, it makes it even more important that we acknowledge this responsibility of the PEG Studio staff and provide them appropriate amount of time to accomplish it. We plan on rolling out with this new schedule on Oct. 27th on a trial basis. We will allow producers to book with this schedule in mind until February 2nd 2014. On January 6th 2014, the Studio Manager and NECAT CEO will reassess the success of this new schedule to determine whether it should be adopted on a permanent basis.</p>	<p>February 2, 2014</p>
<p>B.2 Clarify the ownership of existing equipment, with Nashville Education Community and Arts Television Corporation, and establish a formal procedure to identify and inventory assets at the Studio.</p>	<p>Agree: We plan on rectifying this issue by clearly identifying the ownership of every piece of equipment in the studio. The following database fields will be kept: "Manufacturer", "Serial Number", "Description", "Manufactured Date", "Image of Equipment", "Building Located", "Room Located", "Estimated Cost of Equipment", "Whether Equipment is Loaned Out to Public", "Additional Notes". As new equipment comes in, it will be ingested into the system.</p>	<p>January 1, 2014</p>